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National Intelligence Bulletin

State Dept. review completed

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22 July 1974

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Copy **Nº 631**

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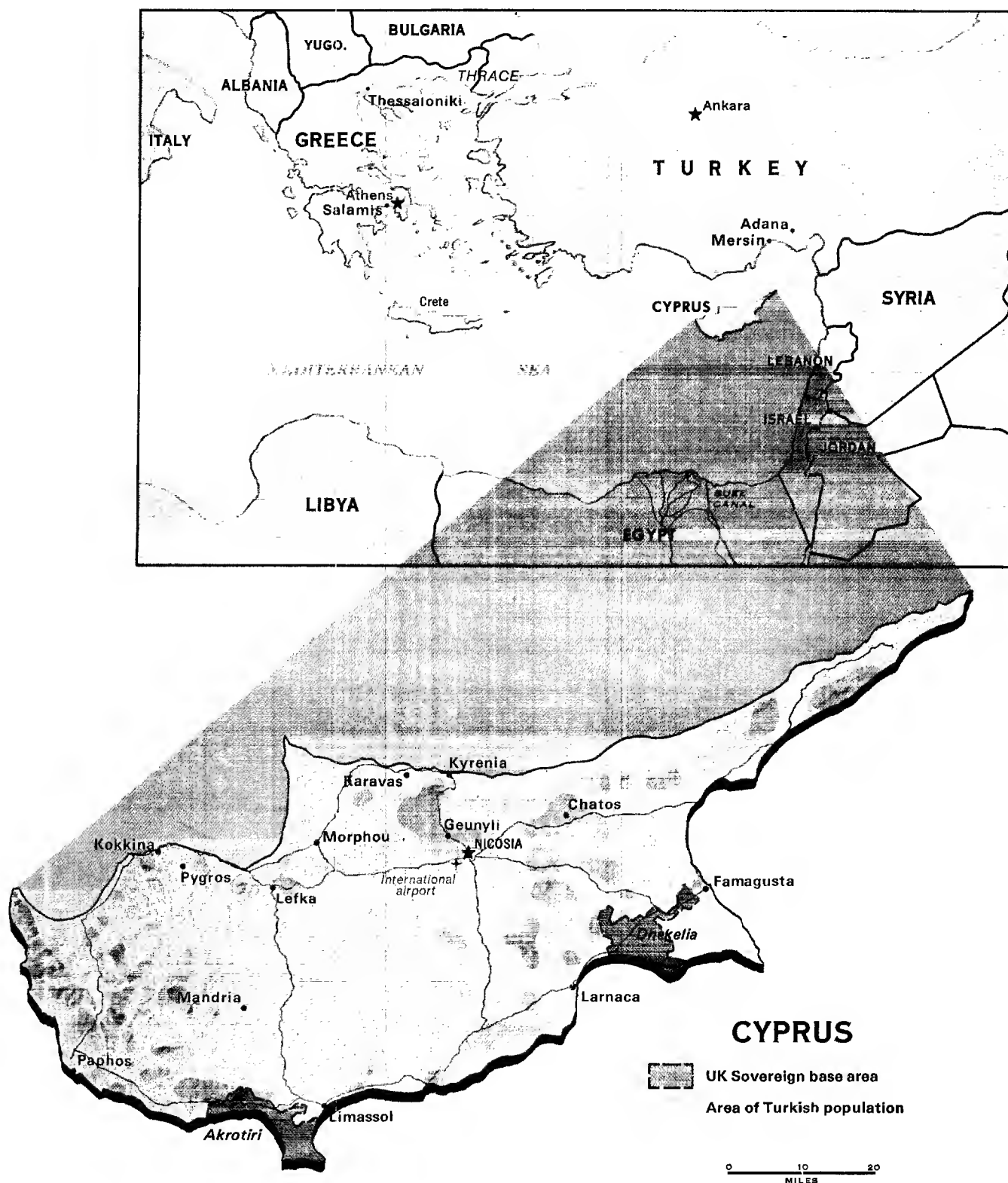
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CYPRUS

The cease-fire arranged last night will bring to at least a temporary halt the fighting that has raged on Cyprus since the Turkish invasion early last Saturday. Both Greece and Turkey claim to be satisfied with the present military standoff. Athens is pleased that Cypriot forces have almost brought the Turkish advance to a standstill, while Ankara claims to have achieved its principal objective of establishing a beachhead and control of an access corridor to Nicosia.

The Greeks and the Turks used the last hours before the cease-fire to continue strengthening their forces on the island. There are indications that the Greeks landed elements of two battalions of paratroops and marines at Nicosia airport by dawn today, the first time that regular Greek forces have been committed to the war. At the same time, the Turks landed additional troops near Kyrenia.

Both sides are struggling to improve their positions in the vital Nicosia area. The Greek intervention, although planned before the cease-fire took shape, would improve Athens' bargaining position in any negotiations about the size of Greek and Turkish forces on the island. It would also improve Athens' standing among the Greek Cypriots, who until now have borne the brunt of the fighting, and bolster Ioannidis' position at home.

At the close of yesterday's fighting, the Turkish forces were still holding their own in the Nicosia and Kyrenia areas, although hard pressed by the Cypriot National Guard. Elsewhere on the island, the Greek Cypriots appear to have the upper hand in the intercommunal fighting.

The Greeks appear satisfied with their performance. They have heavily contested the Turkish invasion and, with the elimination of Turkish Cypriot resistance, they have freed the bulk of their troops to concentrate on the main Turkish force. Clearly, the Turks have lost the initiative.

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Turkish forces hold about a 15-mile beachhead in the vicinity of Kyrenia on the northern coast and the key mountain pass controlling the road leading south to Nicosia. In the capital, Turkish paratroops are in the Turkish quarter and hold positions around the city. The Turks have not taken the airport, however, and while some forces from the coast may have reached the city, the road between Kyrenia and Nicosia is not secure.

On the mainland, press reports indicate that major Greek troop reinforcements continued to move toward the frontier with Turkey yesterday, but the border itself was calm. There also are reports from Ankara that some Turkish reinforcements have moved to the border area.

At Greek request, the Security Council will meet this morning to debate alleged Turkish atrocities during the fighting. Charging that the Turkish air force used napalm against hospitals and civilians, the Greeks yesterday demanded an immediate cessation of such actions and called for a resolution condemning Turkey.

UN activity over the weekend centered on passage of the US-sponsored cease-fire resolution calling for withdrawal of foreign military personnel not sanctioned by international agreement, and for Greece, Turkey, and Britain to seek a negotiated settlement. Despite Soviet and Turkish delaying tactics and Cypriot efforts to include references to Makarios and the legitimacy of his government, the resolution passed unanimously Saturday evening.

That evening, UN peace-keeping forces in Nicosia arranged a limited, but abortive, cease-fire. Since then, the force has been engaged primarily in evacuating foreign nationals and providing humanitarian relief. Implementation of a permanent cease-fire will probably require augmentation of the 2,300-man UN force.

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Prime Minister Androutsopoulos told Secretary Sisco yesterday that young military officers would take over the government within 24 hours. Such a move

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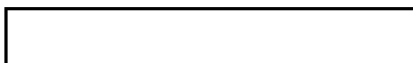
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might be planned in cooperation with Ioannidis to neutralize the moderates or, more likely, to solidify his position should his Cyprus endeavor fail. The cease-fire announcement, however, could deter or postpone such an attempt.

At a special session of the North Atlantic Council last night, Greece informed its NATO Allies of its acceptance of the cease-fire and protested Turkish attacks and napalming of civilian centers in Cyprus. The meeting also considered the earlier Greek announcement placing all Greek officers serving in SHAPE on 24 hours notice to leave for Greece with their families. Urging Greek reconsideration, the council members warned against the serious consequences that a misinterpretation of this move carries for the Alliance. After heated debate between the Greek and Turkish representatives, the council meeting adjourned.

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USSR-CYPRUS

The Soviets have approved of Turkey's invasion of Cyprus, but they have also registered opposition to any alteration of Cyprus' political status. Moscow is concerned that the invasion will lead to partition of the island between Greece and Turkey.

A Soviet government statement issued on Saturday strongly criticized Greek "aggression," but justified Turkey's intervention as needed to protect the Turkish Cypriot community. The statement sought to portray Turkey as intent on restoring Cypriot independence and returning the "legitimate government." Party chief Brezhnev endorsed these objectives during a speech yesterday in Poland.



The Soviets have maintained contact with Makarios in New York and pressed in the Security Council for a return to power of the Archbishop. Moscow, however, has avoided irretrievable commitment to Makarios' cause. The Soviets have been currying favor in Ankara as well, but have been relatively discreet in exploiting the split in NATO, and restrained in their criticism of the US.

The Soviets have shown particular sensitivity to the possibility that their precautionary military moves might lead to increased tension with the West. On Saturday, Tass issued a strongly worded denial of press reports that "all" Soviet forces had been placed on alert.



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CHINA

Premier Chou En-lai is apparently out of the hospital and has resumed some official duties. On July 20, he met with the leader of a delegation from the Republic of Niger. The two countries announced the establishment of diplomatic relations later that afternoon.

The Chinese announcement did not say whether Chou's meeting took place in the hospital as it did when he met with Senator Henry Jackson. A photograph released after the meeting did not appear to have been taken in a hospital.

Chou was apparently hospitalized sometime in June with a heart ailment and reportedly was still in the hospital as of mid-July. At that time, Vice Foreign Minister Chiao Kuan-hua told Western diplomats that the Premier was "convalescing well." Chiao seemed anxious to reassure the diplomats that Chou's illness was not cause for alarm. He admitted that the Premier's heart was "not too good," but added that health problems could only be expected for a man of Chou's age who carries such a heavy workload.

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SPAIN

The US embassy reports that there have been indications General Franco took a decided turn for the worse yesterday afternoon. His family and the three top officials of the government assembled at the hospital and his team of doctors met for consultations.

The doctors later announced that there was no need to alter the General's treatment and that they are optimistic about his condition. Just before the announcement, Prince Juan Carlos, the acting chief of state, left the hospital, appearing to indicate that there was no immediate fear of further deterioration in Franco's condition. The country remains calm, and the press is emphasizing how well the constitutional provisions for temporary transfer of the chief of state's role to Prince Juan Carlos are working.

The government itself does not have to change if Franco dies now. It is in the hands of Prime Minister Arias, a trusted supporter of Franco. Arias might submit a courtesy offer of resignation when Franco goes, but he is not required by law to do so.

Since Arias was appointed by Franco to a five-year term last January, the new king would be unlikely to accept a courtesy resignation. To remove the Prime Minister, the king--unlike Franco--would have to get the consent of the Council of the Realm--a 16-man advisory body of notables representing the military and other powerful elements. Unless widespread disorder were to break out, this group would be expected to let Arias continue to exercise governing power. [REDACTED]

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ISRAEL

The Israeli cabinet decided yesterday to seek negotiations for a peace agreement with Jordan, but rejected talks with Palestinian terrorist organizations.

In what appears to be an opening negotiating position, the cabinet reiterated Israel's long-held view that there continue to be two independent states: Israel, with a united Jerusalem as its capital; and a Jordanian-Palestinian state east of Israel, within borders to be determined by bilateral negotiations.

Press reports said the cabinet voted down a proposal by two liberal ministers to include a separate role in the talks with Jordan for Palestinians that recognize Israel. The cabinet reportedly also ruled out negotiating an interim separation-of-forces agreement with Amman.

The Israeli statement does not go far enough to meet the position taken by King Husayn in the joint Egyptian-Jordanian communiqué last week in Alexandria. King Husayn and President Sadat called for a disengagement between Jordan and Israel as the next step in bringing about an overall peace settlement.

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BERLIN

Pankow threatened on Saturday to restrict the transit rights of the staff of the Federal Environmental Agency (FEA) which Bonn plans to open in West Berlin this fall. The statement by the East German government came after the Soviet Foreign Ministry warned on July 19 that the opening of the FEA--"in violation of the Quadripartite Agreement"--would require "appropriate measures" for the protection of "legitimate" Soviet and East German interests. Although Soviet and East German concern with the FEA issue is of longstanding, they may hope that the distraction created by the Cyprus situation will hinder formulation of a firm Western reaction to the East German move.

Moscow and Pankow have indicated on several occasions that they feel the need to react publicly to the opening of the FEA. Both, however, have privately sought to assure the West that their actions will not be cause for alarm.

The Soviet and East German warnings seem aimed at increasing pressure on Bonn, particularly after signs that West German officials may be wavering on the issue. The Schmidt government has been half-hearted about establishing the FEA, and the Chancellor, at one time, suggested that it be shelved. President Scheel, who had been expected to sign last week the bill to establish the office in West Berlin, has not yet done so.

Officials in Bonn will not reverse their decision, but they may be willing to consider an earlier Soviet proposal that the West give a formal guarantee that this will be the last federal institution established in West Berlin. Mayor Schuetz will most emphatically oppose any agreement that would curb efforts aimed at strengthening the city's ties to the Federal Republic.

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LATIN AMERICA

As part of Costa Rica's continuing effort to preserve the integrity of the OAS system, Foreign Minister Facio has devised a plan for dealing with the Cuban sanctions issue.

Facio's proposal would be submitted to the OAS permanent council, and calls for the establishment of a five-member OAS investigating commission to report within two months on whether Cuba has ceased to constitute a threat to the peace and security of the hemisphere. Based on the commission's report, the council would decide whether to retain the diplomatic and economic sanctions that have been imposed on Cuba since 1964. Facio sees his proposal as a means of averting further unilateral restoration of ties with Cuba by Latin American governments in defiance of the OAS sanctions, which he believes is seriously damaging the Rio Treaty and the OAS.

Departing from Costa Rica's earlier position, Facio, in comments to the US chargé in San Jose, stated that a two-thirds vote should be required to lift the sanctions. He believes that El Salvador, Honduras, Panama, and the Dominican Republic--all countries not now having relations with Cuba--will support his approach. Facio hopes that Venezuela and Colombia will cosponsor the proposal, but he is prepared to submit it unilaterally if necessary.

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ITALY

Rome's balance-of-payments deficit dropped to \$583 million in June, the lowest monthly deficit so far this year. The cumulative payments shortfall in the first half of 1974 amounted to \$6.7 billion.

Last month's sharp improvement stems largely from seasonal factors; tourist receipts are particularly high during the summer months. In addition, the credit squeeze in Italy may be forcing some return flow of private capital, and the trade deficit may have dropped slightly under the impact of import controls instituted last April.

The June deficit was financed by a small drop in foreign exchange reserves and by almost \$440 million in commercial bank net foreign borrowing. Since the second week of June, the Bank of Italy has actually taken in foreign exchange through exchange market intervention as higher Italian interest rates have encouraged short-term capital inflows.

In contrast with earlier months, none of June's payments deficit was covered by proceeds from Eurodollar borrowings. Negotiations on a proposed state railways Euromarket loan and other pending Eurodollar loans were apparently impeded by the general unwillingness of the banks to extend medium-term credit in the form of revolving loans.

Despite the improvement in the payments situation in recent weeks, Italy still must find a way to increase its official foreign borrowing to cover the deficit expected during the rest of the year. Much of the improvement is of a temporary nature. In addition, the recent strong capital inflows will probably abate as Italian investor confidence wanes in the face of declining consumer demand.

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